



FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT
27

MANAGEMENT'S DISCUSSION & ANALYSIS
28

FINANCIAL STATEMENTS
32

NOTES TO THE FINANCIAL STATEMENTS
36

REQUIRED SUPPLEMENTARY INFORMATION
49

OTHER SUPPLEMENTARY INFORMATION
52

2003 COMPREHENSIVE
ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

INDEPENDENT AUDITORS' REPORT


STATE OF INDIANA
 AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF PUBLIC EMPLOYEES' RETIREMENT FUND BOARD OF TRUSTEES

We have audited the accompanying basic financial statements of the Public Employees' Retirement Fund Board of Trustees (PERF), as of and for the year ended June 30, 2003. These basic financial statements are the responsibility of the Public Employees' Retirement Fund Board of Trustees' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The reserves and designations note disclosure for the pension plans administered by the Public Employees' Retirement Fund Board of Trustees does not disclose the balances of the legally required reserves or their funding status as of June 30, 2003. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

In our opinion, except for the omission of the information discussed in the preceding paragraph, the basic financial statements referred to above present fairly, in all material respects, the combined plan net assets of the fiduciary funds of the Public Employees' Retirement Fund Board of Trustees, as of June 30, 2003, and the changes in the combined plan net assets of the fiduciary funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, Schedule of Funding Progress, Schedule of Employer Contributions and the Notes to Required Supplemental Schedules are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Introductory Section, Administrative Expenses, Investment Expenses, Contractual and Professional Service Expenses, Investment Section, Actuarial Section, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Administrative Expenses, Investment Expenses, and Contractual and Professional Services Expenses have been subjected to auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section, Investment Section, Actuarial Section, and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

State Board of Accounts
 STATE BOARD OF ACCOUNTS



MANAGEMENT'S DISCUSSION & ANALYSIS

This section presents management's discussion and analysis of the Public Employees' Retirement Fund of Indiana (PERF) financial statements for the year ended June 30, 2003. The MD&A is presented as a narrative overview and analysis in conjunction with the Letter of Transmittal included in the Introductory Section of the PERF Comprehensive Annual Financial Report. The MD&A should also be read in conjunction with the financial statements, the notes to the financial statements, and the supplementary information.

The following retirement plans are included in the PERF financial statements: Public Employees' Retirement Fund, Judges' Retirement System, Excise Police and Conservation Officers' Retirement Plan, 1977 Police Officers' and Firefighters' Pension and Disability Fund, Legislators' Defined Contribution Plan, Legislators' Defined Benefit Plan, and the Prosecuting Attorneys' Retirement Fund. Also included in the financial statements are other non-retirement funds managed by PERF, which include the Pension Relief Fund, which is accounted for as an Investment Trust Fund, and two Other Employee Benefit Trust Funds, the Public Safety Officers' Special Death Benefit Fund and the State Employees' Death Benefit Fund. See the notes to the financial statements for descriptions of these plans.

Financial Highlights

- The net assets of PERF were \$10.6 billion as of June 30, 2003. Net assets of the retirement plans, which are held in trust to meet future benefit payments, were \$10.2 billion as of June 30, 2003. Net assets of the Pension Relief Fund, which are held in trust for pool participants were \$420 million as of the fiscal year end.
- The net assets of PERF increased by \$507 million, or 4.7% from the prior year. The increase was primarily due to higher investment values.
- Substantially all of the investments for the retirement funds administered by PERF are pooled in the Consolidated Retirement Investment Fund (CRIF). The CRIF rate of return on investments for the year was 4.7% on a market value basis, compared to last year's negative 4.5%, due primarily to the improvement in world equity markets.
- As of July 1, 2002, the date of the most recent actuarial valuation, the largest pension plan administered by PERF, the Public Employees' Retirement Fund, is actuarially funded at 99.2%, which is less than the 105.0% funded level as of July 1, 2001.
- The net assets of the Pension Relief Fund were \$420 million as of June 30, 2003 compared to \$419 million as of June 30, 2002.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to PERF's financial statements. The financial section of the PERF Comprehensive Annual Financial Report is comprised of four components: 1) PERF's financial statements, 2) notes to the financial statements, 3) required supplementary information, and 4) other supplementary information. The information available in each of these sections is briefly Summarized as follows:

1) Financial Statements

The statement of fiduciary net assets presents information on PERF's assets and liabilities and the resulting net assets held in trust for pension benefits, employee death benefits, and for pool participants. This statement reflects PERF's investments, at fair value, along with cash and short-term investments, receivables and other assets and liabilities. This statement indicates the net assets available to pay future pension and death benefits and gives a snapshot at a particular point in time. This statement also indicates the net assets held in trust for pool participants in the Pension Relief Fund, which are available for future distributions to cities and towns.

The statement of changes in fiduciary net assets presents information showing how PERF's net assets held in trust for pension and death benefits and for pool participants changed during the years ended June 30, 2003 and 2002. It reflects contributions by members and employers along with deductions for retirement benefits, refunds, Pension Relief Fund distributions and withdrawals, and administrative expenses. Investment income and losses during the period are also presented showing income from investing and securities lending activities.

2) Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in PERF's financial statements.

3) Required Supplementary Information

The required supplementary information consists of a Schedule of Funding Progress and a Schedule of Employer Contributions and related notes concerning the funding status of the pension plans administered by PERF.

4) Other Supplementary Information

Other schedules include detailed information on administrative expenses incurred by PERF, as well as investment expenses and other professional services expenses incurred. These schedules are presented for the purpose of additional analysis.

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

Financial Analysis

Total assets of PERF were \$12.0 billion as of June 30, 2003 compared with \$11.7 billion as of June 30, 2002. The increase in total assets was primarily due to investment gains during the year.

Total liabilities were \$1.4 billion as of June 30, 2003 compared with \$1.6 billion as of June 30, 2002.

A summary of PERF's Net Assets is presented below:

Net Assets (dollars in thousands)			
	June 30, 2003	June 30, 2002	% Change
Assets			
Cash and Cash Equivalents	\$ 682,589	\$ 679,025	0.5 %
Securities Lending Collateral	759,750	1,124,288	(32.5)
Receivables	432,987	308,352	37.5
Investments	10,165,087	9,580,261	6.1
Total Assets	12,031,413	11,691,926	2.9
Liabilities			
Securities Lending Collateral	759,750	1,124,288	(32.5)
Other Current Liabilities	672,635	475,836	41.3
Long-Term Liabilities	237	155	52.9
Total Liabilities	1,432,622	1,600,279	(10.5)
Total Net Assets	\$ 10,598,791	\$ 10,091,647	5.0 %

As the above table shows, plan net assets were \$10.6 billion as of June 30, 2003 an increase of \$507 million, or 5.02%, compared to the prior year, driven by the increase in market value of investments and the decrease in securities lending collateral.

A summary of net assets by fund compared to the prior year is as follows:

Summary Of Net Assets By Fund (dollars in thousands)			
	June 30, 2003	June 30, 2002	% Change
Public Employees' Retirement Fund	\$ 8,272,988	\$ 7,953,030	4.0%
Judges' Retirement System	124,789	112,484	10.9
Excise Police & Conservation Officers' Retirement Plan	36,635	34,780	5.3
1977 Police Officers' & Firefighters' Pension and Disability Fund	1,706,253	1,537,653	11.0
Prosecuting Attorneys' Retirement Fund	12,554	11,105	13.0
Legislators' Defined Benefit Plan	4,096	4,103	(.002)
Legislators' Defined Contribution Plan	13,063	11,608	12.5
Public Safety Officers Death Benefit Fund	2,419	2,309	4.8
State Employees Death Benefit Fund	5,458	5,171	5.5
Pension Relief Fund	420,536	419,404	(1.5)
Total	\$ 10,589,791	\$ 10,091,647	5 %

Substantially all of the investments for the retirement funds administered by PERF are pooled in the Consolidated Retirement Investment Fund (CRIF). The investments of the non-retirement funds administered by PERF are not included in the CRIF. The following table presents PERF's investment allocation in the CRIF compared to PERF's target investment allocation and the prior year allocation.

	June 30, 2003 Actual	June 30, 2003 Target	June 30, 2002 Actual
Fixed Income	38.10 %	35.50 %	39.60 %
Large Cap Equity	32.70	36.00	36.70
Mid Cap Equity	8.10	5.00	0
Small Cap Equity	6.41	5.50	10.30
International Equity	9.00	6.50	10.20
Global Equity	4.85	6.50	0.70
Alternative Investments	.04	5.00	0
Cash	.08	0	2.50
Total*	100 %	100 %	100 %

*Numbers may not add due to rounding.

MANAGEMENT'S DISCUSSION & ANALYSIS *(continued)*

A summary of the changes in net assets during the years ended June 30, 2003 and 2002 is presented below:

Changes In Net Assets (dollars in thousands)			
	FY Ended June 30, 2003	FY Ended June 30, 2002	% Change
Additions			
Member Contributions	\$ 162,866	\$ 146,696	11 %
Employer Contributions	324,150	308,152	5.2
Contributions to Pension Relief Fund:			
From Cities and Towns	0	27,734	N/A
From the State of Indiana	67,362	68,050	(1.01)
Net Investment Income (Loss)	465,619	(462,055)	200.8
Transfers from Teachers' Retirement Fund	1,774	1,251	41.8
Other	498	459	8.7
Total Additions	1,022,269	89,581	1032.2
Deductions			
Benefits	366,228	339,564	7.8
Refunds	32,506	31,395	3.5
Transfers to Teachers' Retirement Fund	3,847	1,254	300.6
Pension Relief Distributions	96,417	196,579	(50.9)
Local Unit Withdrawals	4,864	0	N/A
Administrative Expenses	11,263	17,385	(35.7)
Total Deductions	515,125	586,177	(12.2)
Increase (Decrease) in Net Assets	507,144	(495,528)	202.3
Change in Net Assets Held in Trust for:			
Pension Benefits	505,615	(398,961)	226.7
Pool Participants	1,132	(96,567)	101.2
Future Death Benefits	397	(363)	209.4

Additions

Additions needed to fund benefits are accumulated through contributions from members and employers and returns on invested funds. Member contributions for the year ended June 30, 2003 totaled \$162.8 million. This represents an increase of \$16.2 million or 11.0% compared to the prior year. Employer contributions were \$324.1 million, an increase of \$16 million or 5.2 %.

During the fiscal year ended June 30, 2002, cities and towns were permitted to defer receiving their earmarked relief payments from the Pension Relief Fund. The deferred amounts remain invested in the Fund and are available to those cities and towns at their request. The deferred amounts are included in the Pension Relief distributions from the Fund and are also recorded as contributions to the Fund from cities and towns. There were no deferrals during the year ended June 30, 2003. The State of Indiana also made contributions to the Pension Relief Fund. These contributions totaled \$67.3 million and \$68.0 million in the fiscal years ended June 30, 2003 and 2002, respectively.

PERF recognized a net investment income of \$465.6 million for the year ended June 30, 2003 compared to a net investment loss of \$462.7 million in the prior year. The total rate of return on the CRIF was 4.7 % compared to a negative 4.5% in the prior year.

MANAGEMENT'S DISCUSSION & ANALYSIS *(continued)*

Deductions

The deductions from PERF's net assets held in trust for pension benefits include primarily retirement, disability, and survivor benefits, refunds of contributions to former members, and administrative expenses. For the year ended June 30, 2003, benefits amounted to \$366.2 million, an increase of \$26.7 million or 7.8% from the prior year. The increase in benefits was due to an increase both in the number of retirees and the average benefit paid. Refunds to former members were \$32.5 million, which represents an increase of 3.5% over the prior year. Part of the increase in the number of retirees is that the State of Indiana, PERF's largest employer, had an early retirement incentive.

Administrative expenses were \$11.2 million, a decrease of \$6.1 million compared to the prior year. The prior year increase was substantially driven by the costs associated with the implementation of a new information technology system and other technology initiatives, including the conversion of historical member records to electronic images to be used in the new information system. The current year decrease is primarily due to the fact that fewer funds have been spent on information system development services.

Pension Relief Fund distributions were \$96.4 million for the year ended June 30, 2003 compared to \$196.6 million during the prior year. The prior year's distribution was higher than normal due to a change from making pension relief distributions to cities and towns in arrears, based on their benefit payments in the prior year, to making the distributions in the current year, based on their estimated benefit payments. This change in the payment schedule resulted in making two annual distributions during the fiscal year ended June 30, 2002, generating additional distributions of approximately \$90.2 million.

Historical Trends

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. The funded ratios of the defined benefit pension plans administered by PERF as of the latest actual valuations were as follows:

	July 1, 2002	July 1, 2001
Public Employees' Retirement Fund	99.2 %	105.0 %
Judges' Retirement System	64.3	61.0
Excise Police & Conservation Officers' Retirement Plan	66.9	71.0
Prosecuting Attorneys' Retirement Fund	53.4	54.2
Legislators' Defined Benefit Plan	80.8	84.7
	January 1, 2002	January 1, 2001
1977 Police Officers' & Firefighters' Pension and Disability Fund	89.3	92.0

An analysis of the funding progress, employer contributions, and a discussion of actuarial assumptions and methods is set forth in the required supplementary information section of the financial statements.

COMBINED STATEMENT OF FIDUCIARY NET ASSETS

As of June 30, 2003 (with Comparative Totals as of June 30, 2002)

	Pension Trust Funds				
(Dollars in Thousands)	Public Employees' Retirement Fund	Judges' Retirement System	Excise Police and Conservation Officers' Retirement Plan	1977 Police Officers' and Firefighters' Pension and Disability Fund	Prosecuting Attorneys' Retirement Fund
Assets					
Cash and Cash Equivalents	\$ 553,532	\$ 9,479	\$ 2,381	\$ 104,859	\$ 841
Securities Lending Collateral	554,215	8,610	2,551	117,328	872
Receivables:					
Contributions	69,856	92	122	31,187	52
Investment Income	33,442	516	153	7,032	52
Due From Other Funds	6,553	—	—	—	—
Investments	209,557	3,293	976	44,874	334
Member Loans	—	—	—	—	—
Due From Teachers' Retirement Fund	5,825	—	—	—	—
Total Receivables:	325,233	3,901	1,251	83,093	438
Investments:					
U.S. Treasury and Agency Obligations	941,739	14,522	4,303	197,893	1,471
Corporate Bonds and Notes	760,794	11,771	3,487	160,398	1,192
Common Stock	3,683,405	55,809	16,534	760,485	5,652
International Stock	878,864	13,785	4,084	187,839	1,396
Foreign Bonds	74,808	1,176	348	16,019	119
Mortgage Securities	1,005,903	15,556	4,609	211,978	1,575
Mutual Funds	372,497	4,152	1,230	56,571	420
Asset Backed	156,082	2,440	723	33,244	247
Commercial Mortgage Backed	41,494	640	190	8,718	65
Other	9,899	136	44	2,080	16
Real Estate Investments	5,396	—	—	—	—
Total Investments:	7,930,881	119,987	35,552	1,635,225	12,153
Total Assets	9,365,861	141,977	41,735	1,940,481	14,304
Liabilities					
Accounts Payable	6,285	—	—	—	—
Salaries and Benefits Payable	312	—	—	—	—
Death Benefits Payable	—	—	—	—	—
Investments	524,345	8,239	2,441	112,263	834
Due To Teachers' Retirement Fund	7,479	—	—	—	—
Securities Lending Collateral	554,215	8,610	2,551	117,328	872
Due To Other Funds	—	339	108	4,637	44
Total Current Liabilities	1,092,636	17,188	5,100	234,228	1,750
Compensated Absences Liability-Long Term	237	—	—	—	—
Total Liabilities	1,092,873	17,188	5,100	234,228	1,750
Net Assets Held in Trust For:					
Employees' Pension Benefits, (See Schedule of Funding Progress on page 49)	8,272,988	124,789	36,635	1,706,253	12,554
Future Death Benefits	—	—	—	—	—
State and Local Units	—	—	—	—	—
Total Net Assets	\$ 8,272,988	\$ 124,789	\$ 36,635	\$ 1,706,253	\$ 12,554

Legislators' Retirement System		Other Employee Benefit Trust Funds		Investment Trust Fund			
Defined Benefit Plan	Defined Contribution Plan	Public Safety Officers' Death Benefit Fund	State Employees' Death Benefit Fund	Pension Relief Fund		2003 Totals	2002 Totals
\$ 258	\$ 1,696	\$ 170	\$ 638	\$ 6,759	\$ 682,589	\$ 679,025	
290	710	124	673	74,377	759,750	1,124,288	
-	-	-	-	-	101,309	97,537	
17	47	33	61	4,327	45,680	52,647	
-	19	50	215	-	6,837	6,309	
111	222	-	-	4,389	263,756	144,862	
-	580	-	-	-	580	536	
-	-	-	-	-	5,825	6,461	
128	868	83	276	8,716	423,987	308,352	
489	1,392	893	2,002	137,192	1,301,896	1,349,398	
396	1,069	1,041	1,890	125,937	1,067,975	1,419,240	
1,880	4,705	-	-	140,297	4,668,767	4,600,739	
446	960	-	-	-	1,087,392	963,154	
40	79	-	-	4,469	97,058	107,029	
524	1,424	131	156	1,110	1,242,966	1,134,957	
140	1,364	-	-	-	436,374	-	
82	184	188	233	-	193,423	-	
22	62	134	326	-	51,651	-	
5	9	-	-	-	12,189	-	
-	-	-	-	-	5,396	5,744	
4,042	11,248	2,387	4,607	409,005	10,165,087	9,580,261	
4,718	14,522	2,764	6,194	498,857	12,031,413	11,691,926	
-	-	-	-	-	6,285	9,144	
-	-	-	-	-	312	225	
-	-	-	-	-	-	150	
277	557	-	-	2,766	651,722	455,791	
-	-	-	-	-	7,479	4,217	
290	710	124	673	74,377	759,750	1,124,288	
55	192	221	63	1,178	6,837	6,309	
622	1,459	345	736	78,321	1,432,385	1,600,124	
-	-	-	-	-	237	155	
622	1,459	345	736	78,321	1,432,385	1,600,279	
4,096	13,063	-	-	-	10,170,378	9,664,763	
-	-	2,419	5,458	-	7,877	7,480	
-	-	-	-	420,536	420,536	419,404	
\$ 4,096	\$ 13,063	\$ 2,419	\$ 5,458	\$ 420,536	\$ 10,598,791	\$ 10,091,647	

COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the Year Ended June 30, 2003 (with Comparative Totals for the Year Ended June 30, 2002)

	Pension Trust Funds				
(Dollars in Thousands)	Public Employees' Retirement Fund	Judges' Retirement System	Excise Police and Conservation Officers' Retirement Plan	1977 Police Officers' and Firefighters' Pension and Disability Fund	Prosecuting Attorneys' Retirement Fund
Additions					
Retirement Contributions:					
Members	\$ 128,828	\$ 1,558	\$ 68	\$ 30,350	\$ 836
Employers	213,370	13,276	1,951	94,920	446
Contributions from Cities and Towns	—	—	—	—	—
Other Contributions from State of Indiana:					
Cigarette Tax	—	—	—	—	—
Alcohol Tax	—	—	—	—	—
Bail Bond Fees	—	—	—	—	—
Lottery Fees	—	—	—	—	—
Total Contributions	342,198	14,834	2,019	125,270	1,282
Investment Income:					
Investment Income (Loss)	355,023	6,445	1,689	82,024	635
Securities Lending Income	2,411	37	10	503	4
Less Investment Expense:					
Securities Lending Expenses	(699)	(11)	(3)	(146)	(1)
Other Investment Expenses	(15,765)	(233)	(69)	(3,147)	(24)
Net Investment Income	340,970	6,238	1,627	79,234	614
Other Additions:					
Transfers from Teachers' Retirement Fund	1,774	—	—	—	—
Late Fees and Miscellaneous Income	498	—	—	—	—
Total Other Additions	2,272	—	—	—	—
Total Additions	685,440	21,072	3,646	204,504	1,896
Deductions					
Pension and Disability Benefits	322,751	8,611	1,711	32,073	254
Death Benefits	—	—	—	—	—
Refunds of Contributions and Interest	29,637	46	40	2,321	172
Transfers to Teachers' Retirement Fund	3,847	—	—	—	—
Pension Relief Distributions	—	—	—	—	—
Local Unit Withdrawals	—	—	—	—	—
Administrative Expenses	9,247	110	40	1,510	21
Total Deductions	365,482	8,767	1,791	35,904	447
Change in Net Assets Held in Trust for:					
Pension Benefits	319,958	12,305	1,855	168,600	1,449
Pool Participants	—	—	—	—	—
Future Death Benefits	—	—	—	—	—
Net Assets Beginning of Year, restated	7,953,030	112,484	34,780	1,537,653	11,105
Net Assets End of Year	\$ 8,272,988	\$ 124,789	\$ 36,635	\$ 1,706,253	\$ 12,554

Legislators' Retirement System		Other Employee Benefit Trust Funds		Investment Trust Fund	2003 Totals	2002 Totals
Defined Benefit Plan	Defined Contribution Plan	Public Safety Officers' Death Benefit Fund	State Employees' Death Benefit Fund	Pension Relief Fund		
\$ -	\$ 1,226	\$ -	\$ -	\$ -	\$ 162,866	\$ 146,696
187	-	-	-	-	324,150	308,152
-	-	-	-	-	-	27,734
-	-	-	-	34,844	34,844	35,937
-	-	-	-	2,507	2,507	2,091
-	-	11	-	-	11	22
-	-	-	-	30,000	30,000	30,000
187	1,226	11	-	67,351	554,378	550,632
188	515	254	496	36,159	483,428	(450,916)
1	7	11	20	2,182	5,186	38,935
-	(2)	(9)	(16)	(1,951)	(2,838)	(35,309)
(32)	(1)	(5)	(10)	(871)	(20,157)	(14,765)
157	519	251	490	35,519	465,619	(462,055)
-	-	-	-	-	1,774	1,251
-	-	-	-	-	498	458
-	-	-	-	-	2,272	1,709
344	1,745	262	490	102,870	1,022,269	90,286
328	-	-	-	-	365,728	333,883
-	-	150	200	150	500	5,681
-	290	-	-	-	32,506	31,395
-	-	-	-	-	3,847	1,254
-	-	-	-	96,417	96,417	196,579
-	-	-	-	4,864	4,864	-
23	-	2	3	307	11,263	17,385
351	290	152	203	101,738	515,125	586,177
(7)	1,455	-	-	-	505,615	(398,961)
-	-	-	-	1,132	1,132	(96,567)
-	-	110	287	-	397	(363)
4,103	11,608	2,309	5,171	419,404	10,091,647	10,587,538
\$ 4,096	\$ 13,063	\$ 2,419	\$ 5,458	\$ 420,536	\$ 10,598,791	\$ 10,091,647

NOTES TO THE FINANCIAL STATEMENTS *June 30, 2003*

Note 1. Summary of Significant Accounting Policies

The following are the significant accounting policies followed by The Public Employees' Retirement Fund of Indiana Board of Trustees (PERF):

(A) Reporting Entity

The Public Employees' Retirement Fund of Indiana Board of Trustees is an independent body corporate and politic exercising essential government functions. The financial statements presented in this report present only those funds that the PERF Board has responsibility for and are not intended to present the financial position or results of operations of the State of Indiana or all of the retirement and benefit plans administered by the State. Although PERF is not a state agency, it is a component unit of the State of Indiana for financial statement reporting purposes.

The following funds are included in the financial statements: Public Employees' Retirement Fund, Judges' Retirement System, Excise Police and Conservation Enforcement Officers' Retirement Plan, 1977 Police Officers' and Firefighters' Pension and Disability Fund, Prosecuting Attorneys' Retirement Fund, Legislators' Defined Contribution Plan, Legislators' Defined Benefit Plan, Public Safety Officers' Special Death Benefit Fund, State Employees' Death Benefit Fund, and the Pension Relief Fund. See Notes 2 and 3 for descriptions of these funds.

(B) Basis of Presentation

The financial statements of PERF have been prepared using fund accounting in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for established governmental accounting and financial reporting principles. GASB Statement 25 has been implemented for the defined benefit pension plans.

In June of 1999, the GASB issued Statement No. 34 (the "Statement") Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. This Statement establishes financial reporting standards for state and local governments. The requirements of this Statement are effective for periods beginning after June 15, 2001, in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999. PERF implemented GASB 34 with the June 30, 2002 financial statements.

(C) Fund Accounting

PERF uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

The PERF Board administers seven pension trust funds. In addition, the PERF Board also administers the Pension Relief Fund, which is accounted for as an investment trust fund, and two death benefit funds, accounted for as other employee benefit trust funds. For descriptions of these funds see Notes 2 and 3. The PERF Board also has general fund accounts on the Auditor of State's accounting system. These are used to transfer general fund appropriations to certain funds. The accounts themselves are not included in these financial statements but the appropriations are included as contributions in the funds for which the appropriations were made.

Fiduciary funds, including pension trust, investment trust, and other employee benefit trust funds, account for assets held by the government in a trustee capacity or as an agent on behalf of others. The pension trust, the other employee benefit trust funds, and the investment trust funds are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting.

(D) Basis of Accounting

The records of PERF are maintained on a cash basis. The accrual basis is used for financial statement reporting purposes. Receivables and liabilities are not maintained on the accounting records, but are calculated or estimated for financial statement reporting purposes based on the date they were incurred.

(E) Contributions

Contributions are considered due when the related payroll is issued by the employer. Employers are not required to submit the contributions until the month following the end of the quarter. The estimates for contribution receivable at year end for each of the retirement funds were determined on the basis that best represents that fund's receivable. The different bases include actual third quarter contributions received during the quarter ended June 30, 2003, actual contributions received in July for workdays in June, or a combination of the two. Legislators receive the majority of their pay in January and February and the contributions are transferred on the pay dates. Therefore, no receivable is established for the legislators' retirement funds.

NOTES TO THE FINANCIAL STATEMENTS June 30, 2003 (continued)

(F) Benefits and Refunds

Benefits are recognized each month as benefits are paid. First checks are issued after processing the retirement application. Refunds are recognized each month as benefits are paid.

(G) Administrative Expenses

A budget for the administrative expenses of PERF is prepared and is approved by the Board of Trustees. Administrative expenses are paid from investment earnings.

The Public Employees' Retirement Fund (PERF Fund) pays the administrative expenses of all the funds. Records of the expenses are maintained and at June 30 a receivable is established in the PERF Fund and a payable in the other funds for the amount due to the PERF Fund for the other funds' administrative expenses. The Legislators' Defined Contribution Plan is not provided funds or a method to pay administrative expenses. Therefore, the Legislators' Defined Benefit Plan covers the administrative costs of both funds.

(H) Deposits and Investments

The Treasurer of State acts as the official custodian of the cash and securities of the funds, except for securities held by banks or trust companies under custodial agreements with PERF. The Board of Trustees contract with investment counsel, trust companies, or banks to assist PERF in its investment program. The Board is required to diversify investments in accordance with prudent investment standards. Investment guidelines, issued by the Board, contain limits and goals for each type of investment portfolio and specify prohibited transactions. The investment guidelines authorize investments of: U.S. Treasury and Agency obligations, U.S. Government Securities, corporate bonds, notes and debentures, common stocks, repurchase agreements secured by U.S. Treasury obligations, mortgage securities, commercial paper, banker's acceptances, and other such investments.

(I) Method Used to Value Investments

GASB 25 requires that investments of defined benefit plans be reported at fair value. Short-term investments are reported at market value when available, or at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the official closing price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. For investments where no readily available market value exists, management, in consultation with their investment advisors, has determined the fair values for the individual investments. The buildings purchased as investments by the Public Employees' Retirement Fund (PERF Fund) are reported at cost, as there has not been a recent independent appraisal. The buildings are immaterial to the total investments of PERF.

(J) Investment Unit Trust Accounting

In order to provide a consolidated rate of return for the pension funds, and effectively invest in a diversified manner, the Board of Trustees directed that investment unit trust accounting be implemented and that the investments be commingled as allowed by State statutes. Unit trust accounting involved assigning units to each fund based on the share of the fund's investment fair value to the total fair value of the consolidated investments. The custodian bank prepares consolidated bank statements and fund statements that show the unit trust accounting activity. Investment earnings and appreciation increase the per unit value of all participating funds. Deposits and withdrawals for each fund change the number of units held by each fund. These changes are recorded at the unit value on the transaction date. Investment earnings or losses and fees for the total consolidated fund are allocated to each of the pension funds on a monthly basis using the pro rata fair value share at month end.

The Consolidated Retirement Investment Fund (CRIF) is an internal investment pool as defined by GASB. It is comprised of investment bank accounts that are maintained individually for each of the contracted investment managers. The CRIF included all investments and transactions of the pension funds, except for the PERF Fund members' annuity savings accounts directed outside the guaranteed fund, the real estate investments and two short-term investment accounts for building maintenance and checking. The Legislators' Defined Contribution Plan members' account balances directed to the consolidated fund option are also included in the CRIF. The non-retirement funds administered by PERF are not included in the CRIF.

In accordance with GASB criteria for internal investment pools, the assets and liabilities of the CRIF were allocated pro rata to each of the retirement funds within the pool. This includes cash equivalents, securities lending collateral, accounts receivable and payable to brokers, accrued interest, and the investment holdings. The financial statements recognize the investment purchases and sales on the trade date as required by GASB.

The PERF Fund members' annuity savings accounts and the Legislators' Defined Contribution Plan members' accounts directed to the bond fund, S&P 500 Index stock fund, and international stock fund were included with those portfolios maintained for the consolidated fund investments. The pension relief fund also invests in the S&P 500 Index stock fund. The unit trust method is used to separately account for the transactions and balances owned by the CRIF and those owned by the PERF Fund members' annuity savings accounts, the Legislators' Defined Contribution Plan members' accounts, and the Pension Relief Fund. This was also implemented and accounted for through the custodian bank.

NOTES TO THE FINANCIAL STATEMENTS June 30, 2003 (continued)

(K) Real Estate Investment

PERF does not recognize depreciation on the buildings owned at 125 and 143 West Market Street, Indianapolis, or the fixed assets relating to the buildings' operations, as they were purchased for investment purposes. The buildings are legally owned by Market Capital Ventures, LLC. The Public Employees Retirement Fund of Indiana is the only member of the Limited Liability Corporation. A property management firm is contracted to maintain the buildings and pay building expenses.

(L) Other Investments

Other Investments includes warrants, overdrafts, and investment in shares of limit liability partnerships.

(M) Equipment

Equipment with a cost of \$20,000 or more is capitalized at the original cost and depreciation is recognized in the Administrative Expenses. Depreciation is computed on the straight-line method over the estimated ten-year life of all assets. PERF had no capitalized equipment as of June 30, 2003.

(N) Inventories

Inventories of consumable supplies are not recognized on the balance sheet since they are considered immaterial. Purchases of consumable supplies are recognized as expenses at the time of purchase.

(O) Reserves and Designations

The following are the legally required reserves and other designations of fund equity:

1. Member Reserve – The members' reserve represents member contributions made by or on behalf of the members plus any interest distributions, less amounts refunded or transferred to the Benefits in Force reserve for retirement, disability, or other benefit. For the PERF Fund, this reserve is the members' annuity savings accounts.
2. Employer Reserve – This reserve consists of the accumulated employer contributions plus earnings distributions less transfers made to the benefits in force reserve of the actuarial pension cost.

3. Benefits in Force – This reserve represents the actuarially determined present value of future benefits for all members who are currently retired or disabled. The accumulated contributions of the members are transferred to the reserve upon retirement or disability. The remainder of the actuarial pension cost is transferred from the employer reserve to fund the benefits.

4. Undistributed Investment Income Reserve – This reserve was credited with all investment earnings. Interest transfers have been made annually to the other reserves as allowed or required by the individual funds' statutes. The transfers are at rates established by the Board of Trustees, statutes, the actual earning rates for certain investment options, depending on the statutes of the individual funds. Annually a transfer is made to or from the employer reserve in order to retain a balance of Undistributed Investment Income at June 30 equal to two year's budgeted administrative expenses plus necessary estimated investment management fees.

5. Unreserved – This reserve represents the unfunded actuarial accrued liability for non-retired participants, determined by the fund's actuary, as of the date of the last valuation.

(P) Compensated Absences

PERF's full-time employees are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment with the State of Indiana. Personal leave days are earned at the rate of one day every four months; any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation from service, employees in good standing will be paid for a maximum of thirty unused vacation leave days.

No liability is reported for unpaid accumulated sick leave. Vacation and personal leave and the salary-related payments that are expected to be liquidated are reported as Compensated Absences Liability.

NOTES TO THE FINANCIAL STATEMENTS June 30, 2003 (continued)

Note 2. Retirement Plans

The following is a brief description of each of the retirement funds and plans:

(A) Public Employees' Retirement Fund

The Public Employees' Retirement Fund (PERF Fund) is an agent multiple-employer public employee retirement system and a defined benefit plan that acts as a common investment and administrative agent for units of state and local governments in Indiana. Established by the Indiana Legislature in 1945 and governed by IC 5-10.2 and IC 5-10.3, this trust fund provides a retirement program for most officers and employees of the State of Indiana who are not eligible for another program.

The fund also covers many officers and employees of municipalities of the State, including counties, cities, towns, townships and school corporations. The political subdivisions become participants by ordinance or resolution of the governing body, which specifies the classifications of employees who will become members of the fund, and is filed with and approved by the PERF Board of Trustees. In order to be a member, employees hired after June 30, 1982 must occupy positions normally requiring performance of service of one thousand hours during a year. School corporation employees, however, as well as those hired before July 1, 1982 must occupy positions requiring service of six hundred hours during a year.

At June 30, 2003, the number of participating political subdivisions was 1049. The PERF Fund membership at July 1, 2002 consisted of:

Retirees, disability recipients, and beneficiaries receiving benefits	51,092
Terminated employees entitled to benefits but not yet receiving them	11,572
Active employees: vested and non-vested	143,234
Total	205,898
Total covered payroll (in thousands)	\$ 3,785,242

The PERF Fund retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's annuity savings account. The mandatory employer contribution is a percentage of payroll, determined by PERF's actuary, necessary to fund the pension benefit in accordance with IC 5-10.2-2-11. The annuity savings account consists of the member's contributions, set by statute at three percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, members may elect to make additional voluntary post-tax contributions of up to 10% of their compensation into their annuity savings account.

At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's annuity savings account instead of receiving the amount as an annuity. The annuity savings account may be withdrawn at any time should a member terminate employment prior to retirement. Withdrawal of the annuity savings account prior to retirement results in forfeiture of the related pension benefit. All benefits vest after ten years of creditable service. The vesting period is eight years for certain elected county officials. When benefit rights are vested, members may retain them even if they withdraw from active service before normal retirement age.

A member who has reached age sixty-five and has at least ten years of creditable service is eligible for normal retirement and, as such, is entitled to one hundred percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of PERF covered employment. The average annual compensation in this calculation is an average of the member's highest twenty calendar quarters' salaries during PERF covered employment. Member contributions paid by the employer on behalf of the member and severance pay up to \$2,000 are included as part of the member's salary.

A member who has reached at least age fifty and has fifteen years of creditable service is eligible for early retirement with a reduced pension, ranging from forty-four percent to ninety-nine percent of the pension benefit described above. However, a member who is at least fifty-five years old and the member's age plus number of years of PERF covered employment is at least eighty-five is entitled to 100 percent of the benefits as defined in the preceding paragraph.

The PERF Fund also provides disability and survivor benefits. A member who has at least five years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the member has qualified for Social Security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. Upon the death in service of the member with fifteen or more years of creditable service, a survivor benefit may be paid to the spouse or designated dependent beneficiary. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age fifty or at his death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits.

NOTES TO THE FINANCIAL STATEMENTS June 30, 2003 (continued)

(B) Judges' Retirement System

The Judges' Retirement System is a single employer public employee retirement system and a defined benefit plan, established in 1953 by IC 33-13-8. Coverage is for any person who has served, is serving, or shall serve as a regular judge of the Supreme Court of the State of Indiana, Circuit Court of any Judicial Circuit, Indiana Tax Court, or County Courts including: Circuit, Superior, Criminal, Probate, Juvenile, Municipal and County Court. IC 33-13-10.1 applies to judges beginning service after August 31, 1985.

Retirement, permanent disability, and death benefits are provided by the Judges' Retirement System. Retirement benefits vest after eight years of creditable service. Judges who retire at or after age sixty-five with eight years of creditable service are entitled to an annual retirement annuity, payable monthly for life, in an amount calculated in accordance with statutes.

A reduced amount is paid for early retirements that may be selected upon attainment of age sixty-two. There is no vesting requirement for permanent disability benefits. Surviving spouses or dependent children are entitled to benefits for life, or until attainment of age eighteen, if the participant had qualified to receive a retirement or disability annuity or had completed at least ten years of service and was in service as a judge.

At July 1, 2002, the Judges' Retirement System membership consisted of:

Retirees, disability, and beneficiaries receiving benefits	235
Terminated employees entitled to benefits but not yet receiving them	73
Active employees: vested and non-vested	228
Total	590
Total covered payroll (in thousands)	\$ 25,805

Member contributions are established by statute at six percent of total statutory compensation and are deducted from the member's salary or paid by the employer, and remitted by the Auditor of State or County Auditor. However, no contribution is required and no such amounts shall be paid on behalf of any participant for more than twenty-two years.

Employer contributions are determined by the Indiana General Assembly as biennial appropriations from the State's General Fund. Indiana Code 33-13-8-16(a)(1) provides that this appropriation only include sufficient funds to cover the aggregate liability of the fund for benefits to the end of the biennium, on an actuarially funded basis. The statutes also provide for remittance of docket fees and court fees. These are considered employer contributions.

(C) Excise Police and Conservation Enforcement Officers' Retirement Plan

The Excise Police and Conservation Enforcement Officers' Retirement Plan (E&C) was established in 1972 by IC 5-10-5.5 as amended. The retirement fund is a single employer defined benefit plan. The retirement fund is for employees of the Indiana Department of Natural Resources and the Indiana Alcohol and Tobacco Commission who are engaged exclusively in the performance of law enforcement duties.

The E&C Plan provides retirement, disability, and survivor benefits. Retirement and survivor benefits vest after fifteen years of creditable service. Each participant is required to retire on or before the first day of the month following the participant's sixtieth birthday. A participant who is at least fifty-five years of age and the sum of the participant's years of creditable service and age in years equals at least eighty-five may retire and become eligible for benefits. A step rate benefits formula specified by statute is used to calculate benefits that are payable monthly for life. A reduced benefit is provided for early retirements that are elected upon attainment of age forty-five with fifteen years of creditable service.

Surviving parents or the spouse are entitled to benefits for life generally equal to fifty percent of the amount the participant would have received if retired. Surviving unmarried children are entitled to benefits equal to their proportionate share of the amount the participant would have received if retired. This benefit will continue until the child reaches eighteen years of age or marries.

There is no vesting requirement for entitlement to the plan's permanent and temporary disability benefits. The benefit amount is greater if the disability arose in the line of duty. The benefit is based upon the participant's monthly salary times the degree of impairment as determined by the disability medical panel, established in accordance with statute.

Members are required by statute to contribute three percent of the first \$8,500 of annual salary to the fund. If a member leaves covered employment or dies before fifteen years of credited service, accumulated member contributions plus interest, as credited by the Board of Trustees, are refunded to the member, designated beneficiary, or the member's estate. The State of Indiana, as the employer, is required by statute to contribute the remaining amount necessary to actuarially finance the coverage.

At July 1, 2002 the E&C Plan's membership consisted of:

Retirees, disability, and beneficiaries receiving benefits	128
Terminated employees entitled to benefits but not yet receiving them	1
Active employees: vested and non-vested	254
Total	383
Total covered payroll (in thousands)	\$ 12,654

NOTES TO THE FINANCIAL STATEMENTS June 30, 2003 (continued)

(D) 1977 Police Officers' and Firefighters' Pension and Disability Fund

The 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund) is a defined benefit, multiple-employer, cost sharing public employee retirement system. The fund was established in 1977 by IC 36-8-8 to provide coverage to full-time sworn officers of a police force of an Indiana city or town and full-time firefighters employed by an Indiana city, town, township, or county.

A participant is required by statute to contribute six percent of a first class officer or firefighter's salary for the term of their employment up to thirty-two years. The accumulated value of the member's contribution, including interest, may be withdrawn if the member terminates employment prior to completing twenty years of service. The fund's actuary determines employer contributions.

A member who retires at or after the age of fifty-two, with twenty years of service, is entitled to fifty percent of the prevailing salary of a first class officer, as defined by the local unit, plus one percent for each six month period over twenty years. The maximum benefit is seventy-four percent of the salary of a first class officer.

The fund also provides disability and survivor benefits. If an active fund member has a covered impairment, the member is entitled to receive benefits. The statutes define the disability benefits. The benefits may be based on when the member was first hired, the type of impairment, and other factors.

If a member dies while receiving retirement or disability benefits there are provisions for the surviving spouse and children to receive a portion of the benefits. Each of the member's surviving children is entitled to a monthly benefit equal to twenty percent of the member's monthly benefit until the age of eighteen. The member's surviving spouse is entitled to a monthly benefit equal to sixty percent during the spouse's lifetime. If there is no eligible surviving spouse or children, a dependent parent or parents may receive fifty percent of the fund member's monthly benefit during their lifetime.

At June 30, 2003, the number of participating employer units totaled 156 (245 police and fire departments). Membership of the 1977 Fund at January 1, 2002 consisted of:

Retirees, disability recipients, and beneficiaries receiving benefits	1,866
Terminated employees entitled to benefits but not yet receiving them	70
Active employees: vested and non-vested	10,179
Total	12,115
Total covered payroll (in thousands)	\$ 396,333

Indiana Code 36-8-8-9 was amended effective July 1, 1998 allowing Firefighters and Police Officers who converted their benefits from the 1925, 1937, or 1953 funds and either were retired or disabled on or before June 30, 1998 to be entitled to receive benefits under the 1977 Fund using the 1977 Fund's eligibility criteria. The employees were then considered members of the 1977 Fund for the purposes of paying benefits to them, effective for benefits paid on or after October 1, 1998. Due to this law change, 1,256 retirees became a part of the 1977 Fund.

(E) Prosecuting Attorneys' Retirement Fund

The Prosecuting Attorneys' Retirement Fund was established in 1989 by IC 33-14-9. The retirement fund is a single employer defined benefit plan. The retirement fund is for individuals who serve as a prosecuting attorney or chief deputy prosecuting attorney on or after January 1, 1990. These individuals are paid from the General Fund of the State of Indiana.

The Prosecuting Attorneys' Retirement Fund provides retirement, disability, and survivor benefits. A participant is entitled to a retirement benefit if the participant is at least sixty-five years of age (sixty-two years for reduced benefits), has ceased service as a prosecuting attorney, and is not receiving, nor entitled to receive, any salary from the State for services currently performed.

The amount of the annual retirement benefit for a participant who is at least sixty-five years of age is the product of the annual salary that was paid to the participant at the time of separation from service, multiplied by a percentage based on the participant's years of service. The percentages range from thirty percent for ten years of service to sixty percent for twenty-two or more years of service.

If the participant is at least sixty-two years of age, the participant is entitled to receive a reduced annual retirement benefit that equals the benefit, as calculated above, reduced by one-fourth percent (0.25%) for each month that the participant's age at retirement precedes the participant's sixty-fifth birthday.

Retirement benefits payable to a participant are reduced by the defined benefit portion of the pension, if any, that would be payable to the participant from the Public Employees' Retirement Fund (PERF Fund) if the participant had retired from the PERF Fund on the date the participant's retirement from the Prosecuting Attorneys' Retirement Fund occurred. Members of this fund are also participating members of the PERF Fund with the State paying the three percent employee contributions.

NOTES TO THE FINANCIAL STATEMENTS June 30, 2003 (continued)

The Prosecuting Attorneys' Retirement Fund also provides disability and survivor benefits. A participant who has at least five years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the participant has qualified for Social Security disability benefits and has furnished proof of the qualification. The amount of the annual benefit payable to a participant for disability benefits is equal to the product of the annual salary that was paid to the participant at the time of separation from service multiplied by a percentage based on the participant's years of service. The percentages range from forty percent for five years of service to fifty percent for twenty or more years of service.

The surviving spouse of a participant who dies is entitled to benefits regardless of the participant's age if the participant was: receiving benefits from this fund, serving as a prosecuting attorney or chief deputy prosecuting attorney and had completed at least ten years of service, or met the requirements for disability benefits.

The surviving spouse is entitled to a benefit for life equal to the greater of seven thousand dollars (\$7,000) or fifty percent of the retirement benefit the participant was drawing at the time of death, or to which the participant would have been entitled, had the participant retired and begun receiving retirement benefits on the date of death, with the reductions as necessary for early retirement. If there is not a surviving spouse, there are provisions for dependents to receive benefits.

All disability benefits payable from the Prosecuting Attorneys' Retirement Fund and benefits payable to a surviving spouse or dependent children are reduced by the amounts, if any, that would be payable under the Public Employees' Retirement Fund.

At July 1, 2002 the Prosecuting Attorneys' Retirement Fund membership consisted of:

Retirees, disabilitants, and beneficiaries receiving benefits	18
Terminated employees with accrued creditable service	194
Active employees: vested and non-vested	205
Total	417
Total covered payroll (in thousands)	\$ 14,438

(F) Legislators' Retirement System

The Legislators' Retirement System was established in 1989 by IC 2-3.5. The retirement system is for the members of the General Assembly of the State of Indiana.

The Legislators' Retirement System is comprised of two separate and distinct plans. The Legislators' Defined Benefit Plan (IC 2-3.5-4), a single employer-defined benefit plan, applies to each member of the General Assembly who was serving on April 30, 1989 and files an election under IC 2-3.5-3-1(b). The Legislators' Defined Contribution Plan (IC 2-3.5-5) applies to each member of the General Assembly who was serving on April 30, 1989 and files an election under IC 2-3.5-3-1(b), and each member of the General Assembly who is elected or appointed after April 30, 1989.

Legislators' Defined Contribution Plan

A participant of the Legislators' Defined Contribution Plan who terminates service as a member of the General Assembly is entitled to withdraw both the employee and employer contributions. The amount available for withdrawal is the fair market value of the participant's account on the quarter end preceding the date of withdraw plus any contributions since the quarter end. Account balances are fully vested to the participants. The withdrawn amount can be paid in a lump sum or as an actuarially equivalent monthly annuity as offered by the Board of Trustees and elected by the participant.

If a participant dies while a member of the General Assembly or after terminating service as a member, but prior to withdrawing from the plan, the participant's account is to be paid to the beneficiary (or beneficiaries) or to the survivors. The amount to be paid is the fair market value of the participant's account (employer and employee contributions) on the quarter end preceding the date of payment, plus contributions since the quarter end.

Each participant shall make employee contributions of five percent of salary received for services rendered after June 30, 1989.

Employer contributions equal to twenty percent of the annual salary received by each participant for services rendered after June 30, 1989 are to be appropriated from the State's General Fund.

Investments in the members' accounts are individually directed and controlled by plan participants who direct the investment of their account balances among several investment options of varying degrees of risk and earnings potential. The investment options include the consolidated fund, bond fund, money market fund, small cap stock fund, S&P 500 Index stock fund, and international stock fund. Members may make changes to their investment directions quarterly. Investments of the plan are reported at fair value.

NOTES TO THE FINANCIAL STATEMENTS June 30, 2003 (continued)

Legislators' Defined Benefit Plan

The Legislators' Defined Benefit Plan provides retirement, disability, and survivor benefits. This plan is closed to new entrants. A participant is entitled to a monthly retirement benefit if the participant is at least sixty-five years of age (fifty-five years for reduced benefits) or is at least fifty-five years of age and whose years of service as a member of the General Assembly plus years of age equal at least eighty-five, or is at least sixty years of age and has at least fifteen years of service; has terminated service as a member of the General Assembly; has at least ten years of service as a member of the General Assembly; and is not receiving, nor entitled to receive, compensation from the State for work in any capacity.

The monthly retirement benefit is the lesser of (1) forty dollars (\$40) multiplied by the total years of service completed by the participant as a member of the General Assembly before November 8, 1989, or (2) the highest consecutive three-year average annual salary of the participant under IC 2-3-1-1 at the date the participant's service as a member of the General Assembly is terminated, divided by twelve.

A participant who has reached at least age fifty-five and meets the other requirements stated above is eligible for early retirement with a reduced benefit. The actual reduction is based on the participant's age and ranges from one-tenth of one percent to fifty-six percent of the monthly retirement as calculated above.

The Legislators' Defined Benefit Plan also provides disability and survivor benefits. A member who has at least five years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the member has qualified for social security disability and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. Upon the death of a participant who was receiving retirement benefits, or had completed at least ten years of service as a member of the General Assembly, or was permanently disabled and receiving disability benefits from the system, the surviving spouse is entitled

to receive survivor benefits. The benefits are for life and are equal to fifty percent of the amount of retirement benefits that: (1) the participant was receiving at the time of death or (2) the participant would have been entitled to receive at fifty-five years of age, or at the date of death, whichever is later. If there is not a surviving spouse, there are provisions for dependents to receive benefits.

The amount required to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendation of an actuary, is to be appropriated from the State's General Fund for each biennium.

At July 1, 2002 the Legislators' Retirement System's membership consisted of:

	Defined Benefit	Defined Contribution
Retirees, disability, and beneficiaries receiving benefits	34	—
Terminated employees entitled to benefits but not yet receiving them	24	—
Active employees: vested and non-vested	58	182
Total	116	182
Total covered payroll (in thousands)		\$ 4,368

A member of the Defined Benefit Plan may also be a member of the Defined Contribution Plan if the participant is still a member of the General Assembly or has not withdrawn from the Defined Contribution Plan since terminating service as a member of the General Assembly.

NOTES TO THE FINANCIAL STATEMENTS *June 30, 2003 (continued)*

Note 3. Description of Non-Retirement Funds

The following is a brief description of the non-retirement funds administered by PERF:

(A) Pension Relief Fund

The Pension Relief Fund was created by the Indiana General Assembly in 1977 (IC 5-10.3-11). The purpose of the fund is to give financial relief to cities' and towns' pension funds for their police officers and firefighters. The financial relief is needed because cities and towns have to pay benefits to retirees under the old plans (locally administered) and adequately fund those in the 1977 Police Officers' and Firefighters' Pension and Disability Fund.

Distributions are made from the Pension Relief Fund to cities and towns two times per year based on a fixed formula. The distribution is based on two separate computations, the "K portion" and the "M portion." The first is based on the number of retirees and amount of benefits projected to be paid during the current year, and the latter is based on the maximum ad valorem tax levy established for each participating municipality. In addition, distribution from the Pension Relief Fund is made to cover death benefits for surviving spouses of members of the 1925, 1937, and 1953 local pension funds in excess of 30% of the salary of a first class patrolman or a first class firefighter.

The Pension Relief Fund also pays a lump sum death benefit of \$150,000. The benefit is paid to the surviving spouse, or if there is no surviving spouse, to the surviving children of a member of the 1977 Fund who dies in the line of duty as defined by 36-8-8-20. If there is no surviving spouse or children, the benefit is paid to the parent or parents in equal shares.

The Pension Relief Fund's additions are derived from contributions from the State for a portion of cigarette and alcohol taxes, a portion of the State's lottery proceeds, and the investment income earned.

Cities and towns are permitted to defer receiving their earmarked relief payments from the Pension Relief Fund. The deferred amounts remain invested in the Fund and are available to those cities and towns at their request. As of June 30, 2003, cities and towns had investments with a market value of \$24,727,085 on deposit in the Pension Relief Fund. In the Fund's financial statements, the earmarked relief payments are reflected as distributions and the deferred amounts are reflected as additions from cities and towns.

(B) Public Safety Officers' Special Death Benefit Fund

Indiana Code 5-10-10 established the Special Death Benefit Fund. The fund was established for the purpose of paying a lump sum death benefit of \$150,000 to the surviving spouse or children of a public safety officer (as defined by IC 5-10-10-6) who dies in the line of duty. If there is no surviving spouse or children, the benefit is paid to the parent or parents in equal shares. The fund consists of bail bond fees remitted to the Auditor of State under IC 35-33-8-3.1 and investment earnings of the fund.

(C) State Employees' Death Benefit Fund

Indiana Code 5-10-11 established the State Employees' Death Benefit program. Under the program, a death benefit of \$50,000 is to be paid to the surviving spouse, or if there is no surviving spouse, to the surviving children (to be shared equally) of a state employee who dies in the line of duty.

The statute did not establish a method to fund the program. It stated that: "The State shall provide these benefits by purchasing group life insurance or by establishing a program of self-insurance." Effective with the State's pay period ended October 23, 1993, the State assessed state agencies 0.1% of gross pay to fund this program. Because of the size of the fund, collection of the assessment ceased November 1999. In the fiscal year ended June 30, 2001, \$1,105,790 was refunded through a transfer from the Fund to the State Budget Agency.

Note 4. Contributions Required and Contributions Made

The following is a brief description of the contributions required and the contributions made to each of the retirement funds and plans:

(A) Public Employees' Retirement Fund

The State of Indiana and any political subdivision that elects to participate in the PERF Fund is obligated by statute to make contributions to the plan. The required contributions are determined by the Board of Trustees based on actuarial investigation and valuation. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the

pension portion of the retirement benefit (normal cost) and the amortization of unfunded liabilities. The amortization period is forty years for those employers whose effective date of participation is prior to 1997. The amortization period for employers joining thereafter will be reduced 1 year per year until 2007 when it will be leveled at 30 years.

The actuarial cost method used in the valuation is the entry age normal cost method in accordance with IC 5-10.2-2-9. Under this method as supplied to the PERF Fund, a normal cost is determined for each active participant which is the level percentage of his compensation needed as an annual contribution from entry age to retirement age to fund his projected benefits.

NOTES TO THE FINANCIAL STATEMENTS June 30, 2003 (continued)

The unfunded actuarial accrued liability on any valuation date is the accumulated value of such normal costs for each non-retired participant from entry date to the valuation date less the value of assets for non-retired members at that date. This unfunded actuarial liability is compared to the expected unfunded actuarial accrued liability, which is determined as the prior valuation unfunded liability reduced by scheduled amortization payments and increased by interest at the actuarially assumed rate. Any changes between the actual liability and expected liability due to changes in benefit levels (excluding Cost-of-Living Adjustments), changes in actuarial gains or losses are amortized over a forty year period (to be reduced to 30 years by 2007, see above) from the date of change. The amortization of the unfunded actuarial liability was restarted with a thirty-year term from the effective date of July 1, 2002.

The actuary calculates the net assets using an asset smoothing method for the determination of the employer actuarially required contribution. Under the smoothing method, asset gains or losses above or below the actuarially assumed rate of 7.25% are recognized over a four-year period. A given year's asset gain or loss will be fully recognized by the end of the fourth succeeding year.

Based on the actuarial valuation at July 1, 2002, employer required contributions were \$217,076,848, which included normal cost of \$211,585,962 and a \$5,490,886 for amortization of the unfunded actuarial accrued liability. Contributions made by employers for the year ended June 30, 2003 totaled \$213,370,000, which was 5.6% of covered payroll.

The required contribution levels are now determined under the assumption that a two percent Cost-of-Living Adjustment (COLA) will be granted in each future year, applying not only to then current retirees, but also to active employees who have yet to retire. Thus, the full effect of a two percent annual COLA is handled on a pre-funded basis.

(B) Judges' Retirement System

Contribution requirements for the Judges' Retirement System are not actuarially determined but are established by statute (IC 33-13-8-16(a)) and appropriations. The actuarial valuation suggested that the minimum contribution for the fiscal year ended June 30, 2003 was 37.1% of anticipated payroll. Employer contributions are appropriated from the State's General Fund.

(C) Excise Police and Conservation Enforcement Officers' Retirement Plan

The funding policy of the Excise Police and Conservation Enforcement Officers' Retirement Plan provides for biennial appropriations authorized by the Indiana General Assembly, which when combined with anticipated member contributions are sufficient to actuarially fund benefits (normal cost), amortize the unfunded accrued liability over thirty years, and prevent the State's unfunded accrued liability from increasing. State statutes define the

funding policy. Member contributions, defined by statute as three percent of the first \$8,500 of annual salary, are remitted to the fund upon each payroll deduction.

Significant actuarial assumptions used to determine contribution requirements included: rate of return on the investment of present and future assets of 7.25% per year, compounded annually; projected salary increases of 5.0% per year, compounded annually; and assets valued by smoothed basis.

(D) 1977 Police Officers' and Firefighters' Pension and Disability Fund

The funding policy mandated by statute requires quarterly remittances of member and employer contributions based on percentages of locally established estimated salary rates, rather than actual payroll. The member contribution rate is not actuarially determined, but was established by statute at six percent of the salary of a first class officer or firefighter.

The employer contribution rate is actuarially determined using the entry age normal cost method. The total required to actuarially fund normal cost is reduced by the total estimated member contributions.

As the 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost sharing system, all risks and costs, including benefit costs, are shared proportionally by the participating employers. All participating employers were required to contribute twenty-one percent of the salary of a first class officer or firefighter during the fiscal year.

The significant actuarial assumptions used to compute the actuarially required employer contribution include: investment earnings of 7.5% per year compounded annually; salary increases of 5% percent per year; benefit increases of 3% percent per year while the benefit is in payment status; and no recoveries from disabilities.

(E) Legislators' Retirement System

For the Legislators' Defined Contribution Plan, each participant is required to contribute five percent of his annual salary. In addition, the State of Indiana is required to contribute twenty percent of the member's annual salary on behalf of the participant.

For the Legislators' Defined Benefit Plan, the amount required to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendation of an actuary, is to be appropriated from the State's General Fund.

(F) Prosecuting Attorneys' Retirement Fund

The amount required to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendation of an actuary is to be appropriated from the State's General Fund. Members contribute 6% of the State-paid portion of their annual salary.

NOTES TO THE FINANCIAL STATEMENTS June 30, 2003 (continued)

Note 5. Deposits and Investments

Deposits held in the three demand deposit accounts are carried at cost and are insured up to \$100,000. The deposits in excess of \$100,000 are Category 3, which is uncollateralized. These deposits are not collateralized nor are they required to be by state statute. Deposits held in accounts of our investment custodian are all Category 3. Deposits with the Treasurer of State are entirely insured.

<i>Cash Deposits (in thousands)</i>	Total	Bank One Benefits	National City	
			Benefits	Admin
Demand deposit account – carrying value	\$ 42,490	\$ 40,172	\$ —	\$ 2,318
Demand deposit account – bank balance	43,270	40,4761	320	2,474
Held with Treasurer of State	17,558			
Held with investment custodian:				
Time Deposits (nonnegotiable)	25,000			

Investments are categorized to give an indication of the level of custodial risk assumed. Category 1 includes investments that are insured or registered or for which the securities are held by PERF or its agent in PERF's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in PERF's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party or by a trust department or agent but not in PERF's name.

Underlying securities to the collateral reported on the financial statements are not classified by category of custodial risk, but are presented by type of investment as held by broker dealer under securities loans.

The following are the investments (including cash equivalents) held by the funds at June 30, 2003:

<i>(Dollars in Thousands)</i>	Category			Total Fair Value
	1	2	3	
Common Stock:				
Not On Securities Loan	\$ 4,388,259	\$ —	\$ —	\$ 4,388,259
On Securities Loan	—	—	—	—
International Stock	1,055,791	—	—	1,055,791
Commercial Paper	—	—	24,967	24,967
Corporate Debt:				
Not On Securities Loan	935,163	—	310,345	1,245,508
On Securities Loan	—	—	—	—
Foreign Bonds				
Not On Securities Loan	86,517	—	—	86,517
On Securities Loan	—	—	—	—
Repurchase Agreements	—	—	191,195	191,195
U.S. Treasury and Agency Obligations:				
Not On Securities Loan	545,766	—	—	545,766
On Securities Loan	—	—	470,168	470,168
Mortgage Securities:				
Not On Securities Loan	1,242,967	—	—	1,242,967
On Securities Loan	—	—	—	—
Certificate of Deposit	—	—	83,809	83,809
Asset Backed	193,423	—	69,546	262,969
Commercial Mortgage Back	51,649	—	—	51,649
Other Investments	—	—	9,534	9,534
Totals	\$ 8,499,535	\$ —	\$ 1,159,564	\$ 9,659,099
Investments Held by Broker-Dealers Under Securities Loans:				
Common Stock				280,510
International Stock				31,602
Corporate Debt				132,813
Foreign Bonds				10,541
US Treasury and Agency Obligations				285,964
Other Unclassified Investments:				
Short Term Investment Fund (open end)				622,476
Limited Liability Partnerships				2,655
Mutual Funds (open end)				436,373
Guaranteed Investment Contract				55,000
Total				\$ 11,517,033

NOTES TO THE FINANCIAL STATEMENTS *June 30, 2003 (continued)*

Securities Lending

Indiana Code 5-10.2-2-13(d) provides that the PERF Board of Trustees may authorize a custodian bank to enter into a securities lending program agreement under which securities held by the custodian on behalf of the Fund may be loaned. The purpose of such a program is to provide additional revenue for the Fund.

Statute requires that collateral initially in excess of the total market value of the loaned securities must be pledged by the borrower, and must be maintained at no less than the total market value of the loaned securities. The Board requires that collateral securities and cash be initially pledged at 102 percent of the market value of the securities lent. No more than 40 percent of the Fund's total assets may be lent at one time. The types of securities lent during the year included U.S. Treasury and agency notes, common stock and corporate bonds. Asset-backed and mortgage securities were generally not subject to security loans. The custodian bank and/or its securities lending subagents provide 100 percent indemnification to the Board and the Fund against borrower default, overnight market risk, and fails on the return of loaned securities. Securities received as collateral cannot be pledged or sold by the Board unless the borrower defaults. The Fund retains the market value risk with respect to the investment of the cash collateral. Cash collateral investments were subject to the investment guidelines specified by the Board. The Board policy includes that the maximum weighted average days to maturity may not exceed sixty. The securities lending agents match the maturities of the investments of cash collateral for the securities loans with stated termination dates. Cash collateral received for open-ended loans that can be terminated on demand are invested with varying maturities.

In the preceding schedule of custodial credit risk, the securities lent at year end for cash collateral are not classified as to their custodial credit risk. Securities lent for securities collateral are classified according to the category for the collateral.

At fiscal year end, the Fund has no credit risk exposure to borrowers because the amount the Fund owes the borrowers exceeds the amount the borrowers owe the Fund.

Derivative Financial Instruments

PERF invested in derivative financial investments as authorized by Board policy. Derivatives are financial arrangements between two parties whose payments are based on, or derived from, the performance of some agreed-upon benchmark. As of June 30, 2003, PERF had only currency forwards as a type of derivative.

PERF enters into various forward currency contracts to manage exposure to changes in foreign exchange rates on its foreign portfolio holdings. PERF may also enter into forward currency contracts to provide a quantity of foreign currency needed at a future time at the current exchange rates, if rates are expected to change dramatically. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arises from the difference between the original contracts and the closing of such contracts. At June 30, 2003 PERF's investments included the following currency forwards balances:

	<i>(in thousands)</i>
Forward Currency Contract Receivables	\$ 125,061
Forward Currency Contract Payables	\$ 125,140

Note 6. Risk Management

PERF is exposed to various risks of loss. These losses include damage to property owned, personal injury or property damage liabilities incurred by an officer, agent or employee, malfeasance and theft by employees, certain employee health and death benefits, and unemployment and worker's compensation costs for employees.

PERF's policy is generally not to purchase commercial insurance for the risk losses to which it is exposed. Instead, it records as an expenditure any loss as the liability is incurred or replacement items are purchased. PERF does purchase a limited amount of insurance to limit the exposure to errors and omissions and (through the property management contractor) purchase fire and casualty insurance relating to the two buildings. There were no losses incurred during the past three fiscal years that were claimed against the insurance. The PERF Board of Trustees administers the State of Indiana's risk financing activity for the State employees' death benefits. Other risk financing activities for the State are administered by other agencies of the State.

Note 7. Commitments for alternative investments

The PERF Board of Trustees had approved commitments to fund limited liability partnerships of \$68.4 million as of June 20, 2003. The fund has paid out \$4.2 million of the commitment as of June 30, 2003. The funding period for the entire amount is July 2002 to June 2015.

NOTES TO THE FINANCIAL STATEMENTS *June 30, 2003 (continued)*

Note 8. Required Supplementary Information

The historical trend information designed to provide information about PERF's progress made in accumulating sufficient assets to pay benefits when due is required supplementary information. Required supplementary information is included immediately following the notes to the financial statements. Other supplementary information is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements.

Note 9. Reclassification

The Public Safety Officers' Death Benefit Fund and the State Employees' Death Benefit Fund were reclassified from Agency Funds to Other Employee Benefit Trust Funds. As Agency Funds, they were not included in the Combined Statement of Changes in Fiduciary Net Asset for the year ended June 30, 2002. The 2002 Totals column in the Combined Statement of Changes in Fiduciary Net Asset was restated to include the activity of the death benefit funds.

Note 10. Prior Period Adjustment

The Pension Relief Fund showed \$7,500,000 as due from the Lottery Commission at June 30, 2002. This receivable was established based on the Lottery Commission showing it as a liability in their statements. It was determined that the Lottery Commission does not have a liability, as the \$7,500,000 was not due until July. The 2002 Total columns were restated for this adjustment.

Note 11. Special Investigation and Audit

In response to the discovery in August, 2002 that the recently employed Chief Benefits Officer had an undisclosed Federal criminal conviction for identity theft, the Governor appointed an Indianapolis attorney to direct an audit and investigation of PERF to identify any irregularities and/or circumstances of identity theft or diversion of PERF funds. A public accounting firm has been engaged to assist in the audit, which is described as a forensic audit. Since the inception of the audit, the United States Grand Jury for the Southern District Of Indiana has returned an indictment against the former Chief Benefits Officer, charging him with, inter alia, obtaining his employment with PERF by unlawful use of a Social Security number. The Grand Jury has also returned an Indictment against a former PERF temporary employee for bank fraud and misuse of Social Security numbers stemming from the diversion of PERF assets and theft of members' personal information. In August 2003 another temporary employee and with seven outside accomplices have been charged with conspiracy, bank fraud, and money laundering involving embezzlement of PERF funds.

The investigation and audit are not complete. The appointed attorney released an interim report to the Governor that was limited to a discussion of the circumstances of the employment of the Chief Benefits Officer. The contract with the attorney requires that he report to the Chief Legal Counsel to the Governor. No further reports have been made public, and PERF management has not been advised of any financial diversions, except those set forth in the Federal indictment. The Federal indictment alleged that the former temporary employee obtained approximately \$25,000 in funds held in members' accounts, and in September 2003 this former temporary employee pleaded guilty to one count of bank fraud and 13 counts of misusing Social Security numbers. The second former temporary employee and accomplices are accused of the theft of approximately \$250,000 from PERF member accounts. To the extent any member's or beneficiary's accounts has been affected by this criminal activity, proper account balances will be restored to their accounts.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL or (Funding Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL or (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
Public Employees' Retirement Fund						
07-01-97	\$ 6,304,948	\$ 6,283,685	\$ (21,083)	100 %	\$ 3,056,393	(1) %
07-01-98	6,914,957	6,630,151	(284,806)	104	3,110,162	(9)
07-01-99	7,595,266	7,075,981	(519,285)	107	3,250,197	(16)
07-01-00	8,267,657	7,699,885	(567,772)	107	3,482,453	(16)
07-01-01	8,723,304	8,305,672	(417,632)	105	3,587,080	(12)
07-01-02	8,994,854	9,066,132	71,278	99	3,785,242	2
1977 and 1985 Judges' Retirement System						
07-01-97	69,357	150,005	80,648	46	29,228	276
07-01-98	79,594	160,845	81,251	49	30,853	263
07-01-99	91,073	176,301	85,228	52	30,963	275
07-01-00	103,733	182,448	78,715	57	30,428	259
07-01-01	115,040	188,610	73,570	61	29,748	247
07-01-02	121,155	188,434	67,279	64	25,805	261
Excise Police & Conservation Enforcement Officers' Retirement Plan						
07-01-97	26,324	38,460	12,136	68	9,855	123
07-01-98	28,663	41,679	13,016	69	10,137	128
07-01-99	31,510	43,368	11,858	73	11,317	105
07-01-00	34,368	46,272	11,904	74	11,306	105
07-01-01	36,921	52,024	15,103	71	12,486	121
07-01-02	37,360	55,884	18,524	67	12,654	146
1977 Police Officers' and Firefighters' Pension and Disability Fund						
01-01-97	909,519	820,929	(88,590)	111	262,590	(34)
01-01-98	1,044,361	952,405	(91,956)	110	291,479	(32)
01-01-99	1,184,905	1,315,275	130,370	90	321,348	41
01-01-00	1,338,554	1,451,454	112,900	92	352,377	32
01-01-01	1,491,030	1,620,294	129,264	92	389,200	33
01-01-02	1,615,245	1,808,754	193,509	89	396,246	49
Legislators' Defined Benefit Plan						
07-01-97	3,834	5,429	1,595	71	n/a*	n/a*
07-01-98	4,041	5,385	1,344	75	n/a*	n/a*
07-01-99	4,319	5,473	1,154	79	n/a*	n/a*
07-01-00	4,557	5,453	896	84	n/a*	n/a*
07-01-01	4,666	5,508	842	85	n/a*	n/a*
07-01-02	4,446	5,503	1,057	81	n/a*	n/a*
* Benefit formula is primarily based on service, rather than compensation.						
Prosecuting Attorneys' Retirement Fund'						
07-01-97	5,970	9,504	3,534	63	11,811	30
07-01-98	7,144	11,356	4,212	63	11,673	36
07-01-99	8,322	13,712	5,390	61	12,566	43
07-01-00	9,781	13,943	4,162	70	13,422	31
07-01-01	11,073	20,417	9,344	54	13,636	69
07-01-02	11,957	22,386	10,429	53	14,438	72

See accompanying notes to required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS *(Dollars in Thousands)*

Public Employees' Retirement Fund		
Year Ended June 30	Annual Required Contributions	Percentage Contributed
1998	\$ 182,891	107 %
1999	167,424	121
2000	159,722	135
2001	169,374	117
2002	175,820	118
2003	217,077	98

1977 and 1985 Judges' Retirement System		
Year Ended June 30	Annual Required Contributions	Percentage Contributed
1998	\$ 10,763	99 %
1999	11,101	100
2000	11,491	102
2001	10,757	114
2002	10,320	122
2003	9,561	139

Excise Police & Conservation Enforcement Officers' Retirement Plan		
Year Ended June 30	Annual Required Contributions	Percentage Contributed
1998	\$ 1,676	103 %
1999	1,781	101
2000	1,702	114
2001	1,718	118
2002	2,047	93
2003	2,324	84

1977 Police Officers' and Firefighters' Pension and Disability Fund		
Year Ended December 31	Annual Required Contributions	Percentage Contributed
1997	\$ 56,784	107 %
1998	63,682	100
1999	77,366	95
2000	82,655	100
2001	91,914	93
2002	98,687	98

Legislators' Retirement System - Defined Benefit Plan		
Year Ended June 30	Annual Required Contributions	Percentage Contributed
1998	\$ 170	118 %
1999	208	97
2000	187	91
2001	178	96
2002	206	91
2003	234	80

Prosecuting Attorneys' Retirement Fund		
Year Ended June 30	Annual Required Contributions	Percentage Contributed
1998	\$ 275	67 %
1999	390	47
2000	426	65
2001	375	73
2002	907	48
2003	1,129	40

See accompanying notes to required supplementary information.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION *June 30, 2003*

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	Public Employees' Retirement Fund	1977 and 1985 Judges' Retirement System	Excise Police & Conservation Enforcement Officers' Retirement Plan
Valuation Date	July 1, 2002*	July 1, 2002	July 1, 2002
Actuarial Cost Method	Entry Age Normal Cost	Entry Age Normal Cost	Entry Age Normal Cost
Amortization Method	Level Dollar, Closed Amortization Period	Level Dollar, Closed Amortization Period	Level Dollar, Closed Amortization Period
Remaining Amortization Period	30 Years	35 Years	35 Years
Asset Valuation Method	75% of Expected Actuarial Value Plus 25% of Market Value	Smoothed Market Value Basis	Smoothed Market Value Basis
Actuarial Assumptions:			
Investment Rate of Return	7.25%	7.25%	7.25%
Projected Salary Increases	Based on PERF experience 1995-2000	5%	5%
Postretirement Benefit Increases	NA	5%	NA
Cost of Living Increases	2%	NA	2%
	1977 Police Officers' and Firefighters' Pension and Disability Fund	Legislators' Retirement System- Defined Benefit Plan	Prosecuting Attorneys' Retirement Fund
Valuation Date	January 1, 2002	July 1, 2002	July 1, 2002
Actuarial Cost Method	Entry Age Normal Cost	Accrued Benefit (Unit Credit)	Entry Age Normal Cost
Amortization Method	Level Dollar, Open Amortization Period	Level Dollar, Closed Amortization Period	Level Dollar, Open Amortization Period
Remaining Amortization Period	30 Years	20 Years	30 Years
Asset Valuation Method	Smoothed Market Value Basis	Smoothed Market Value Basis	Smoothed Market Value Basis
Actuarial Assumptions:			
Investment Rate of Return	7.50%	7.25%	7.25%
Projected Salary Increases	5%	3%	5%
Postretirement Benefit Increases	NA	NA	NA
Cost of Living Increases	3%	2%	NA

* This Valuation is the first to reflect census data as reported by a new database system. The previous database system reported salaries on a calendar year basis and reported service through the March 31 preceding the valuation date. The new database system reports both salary and service on a fiscal year basis. Also, the new database system may have created an increase of about \$70 million in liabilities associated with prior service earned by active members. Due to the fiscal impact of the more current data, this valuation has been prepared in such a manner as to phase-in the changes brought about by the new database system over a four-year period on a pro rata basis. This phase-in will ease the transition to the census data reporting by the new database system.

This Valuation also reflects a fresh start of the amortization of unfunded actuarial accrued liabilities. Previous valuations reflected amortizations that began with an Initial Unfunded Liability established in 1975. Additional amortization bases were added in the years following, primarily reflecting actuarial experience gains and losses but also reflecting changes in actuarial methods and assumptions and changes in plan provisions. By fresh starting the amortization of unfunded actuarial accrued liabilities over a 30-year closed period, the Fund will be able to utilize currently the cost savings of future favorable amortization amounts.

OTHER SUPPLEMENTARY INFORMATION

ADMINISTRATIVE EXPENSES *Year Ended June 30, 2003 (Dollars in Thousands)*

Personal Services:	
Salaries and Wages	\$ 2,969
Employee Benefits	1,242
Temporary Services	497
Total Personal Services	4,708
Professional Services:	
Actuarial Services	73
Legal Services	329
Consultants	996
Contractual Services	1,522
Information System Development Services	1,538
Total Contractual and Professional Services	4,458
Communications:	
Telephone	98
Postage	585
Printing Expense	700
Other	63
Total Communications	1,446
Miscellaneous:	
Data Processing	250
Travel	58
Supplies and Maintenance	105
Dues and Subscriptions	30
Office Supplies	94
Office Equipment	84
Other	30
Total Miscellaneous	651
Total Administrative Expenses	\$ 11,263
Allocation of Administrative Expenses:	
Public Employees' Retirement Fund	9,247
Judges' Retirement System	110
Excise Police and Conservation Enforcement Officers' Retirement Plan	40
1977 Police Officers' and Firefighters' Pension & Disability Fund	1,510
Prosecuting Attorneys' Retirement Fund	21
Legislators' Retirement System – Defined Benefit Plan	23
Public Safety Officers' Death Benefit Fund	2
State Employees' Death Benefit Fund	3
Pension Relief Fund	307
Total Administrative Expenses Allocation	\$ 11,263

OTHER SUPPLEMENTARY INFORMATION

INVESTMENT EXPENSES *Year Ended June 30, 2003 (Dollars in Thousands)*

Investment Expenses		
Custodial and Consulting		
National City Bank of Indiana	Custodial Fees	\$ 848
Mercer Investment Consulting, Inc.	Investment Consulting	322
J. P. Morgan Investment Mgmt Inc.	Custodial Fees	128
Strategic Investment Solutions	Investment Consulting	107
Burnley Associates, Inc.	Investment Consulting	85
Wilshire Compass	Investment Analysis Software	36
Domestic Equity		
Turner Investment Partners	Growth Equity - Large Cap.	1,862
Osprey Partners Investment Mgmt Inc.	Value Equity - Small and Large Cap	1,781
Numeric Inc.	Value Equity - Small Cap	1,211
Times Square Capital Mgmt	Growth Equity - Small Cap	1,114
Brown Capital Management	Growth Equity - Mid Cap	872
Merrill Lynch Investment Managers	Value Equity - Large Cap	731
Strong Capital Management	Growth Equity - Mid Cap	674
Sands Capital Management, Inc.	Growth Equity - Large Cap	642
Dimensional Fund Advisors	Enhanced Equity - Small Cap	493
Brinson Partners, Inc.	Enhanced Equity - Large Cap	492
Barclays Global Investors	S&P Index Equity	326
USB Global Asset Management	Enhanced Equity - Large Cap	246
J. P. Morgan Chase	Enhanced Equity - Large and Small Cap	62
International Equity		
Brandes Investment Partners, L.P.	Global Equity - Value	1,267
GE Asset Management	Equity - International	918
Capital Guardian Trust Company	Equity - International	832
Fidelity Management Trust Co.	Enhanced Index Equity - International	794
State Street Global Advisors	Index Equity - International	35
Fixed Income		
Western Assets Management Co.	Core Opportunistic Fixed Income	988
BlackRock Financial Management, Inc.	Core Opportunistic Fixed Income	757
Taplin, Canida & Habacht	Active Fixed Income	601
Reams Asset Management Co., LLC	Active Fixed Income	456
Seix Investment Advisors, Inc.	Active Fixed Income	437
Lincoln Capital Management, Co. LLC	Indexed Fixed Income	239
Northern Trust Global Investments	Indexed Fixed Income	221
Hughes Capital Management, Inc.	Active Fixed Income	150
Conseco Capital Management, Inc.	Active Fixed Income	72
Bank One Trust Co. of Indiana	Active Fixed Income	53
Utendahl Capital Management	Active Fixed Income	23
Short Term Investments		
J.P. Morgan Investment Mgmt., Inc.	Sweep Fees	282
Total Investment Expenses		\$ 20,157

OTHER SUPPLEMENTARY INFORMATION

CONTRACTUAL AND PROFESSIONAL SERVICES EXPENSES *Year Ended June 30, 2002 (Dollars in Thousands)*

Individual or Firm	Fee	Nature of Services
Covansys	\$ 2,179	IT System Development \ Backfile Conversion \ IT Outsourcing
Crowe Chizek Company LLP	517	Special Investigation
Ice Miller Legal & Business Advisors	362	Outside Legal Counsel
IDTC-State of Indiana	287	State Telephone and Network Consulting
Navigant Consulting, Inc.	274	IT Data Cleanup Consulting
Peterson	245	IT Support
Eclectic Information	116	Information Services Consulting
Juergensen Consulting	81	Change Management
McCready and Keene, Inc.	74	Actuarial Services
Milliman	72	Actuarial Audit
Forest Bowman Jr.	64	Special Investigation
Omkar Markand, M.D.	36	Medical Consulting - Police & Fire Fund
GovConnect	31	IT Support
Barada Associates, Inc.	26	Reference Verifications
L. R. Weshsler LLP	18	IT Support
William M. Mercer Consulting	13	Strategic Planning Consulting
Schubert Art & Design	13	Graphic Design Services
Baker & Daniels	13	Legal Services
Bingham McHale LLP	12	Legal Services
Impact Marketing Group	8	Police & Fire Handbooks
Brennan & Shula	5	Administrative Law Judge - Police & Fire Fund
Price Waterhouse Cooper	4	IT Support
Jenkins & Gilchrist, Parker Chapin LLP	2	Legal Services
Ratio Architects, Inc.	2	Space Planning
Pension Benefit Information	2	Social Security Death Notification
Ballou Consultants	1	Telecommunications Consulting
Other Individuals or Firms	1	Medical Consulting-Police & Fire Fund
Total Contractual and Professional Services Expense	\$4,458	